PPL MONTANA

## *Governor's Energy Task Force*
## ***September 12, 2003***

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I. PPL's role in default supply:

- PPL does not procure power for default supply customers.
  - NorthWestern has the obligation to ensure that the transmission and distribution systems are operated safely and reliably, and ensure that adequate electricity is available to meet its customers' default supply needs.
  - NorthWestern's cost of default supply is recovered in retail rates approved by the Montana PSC and is now being adjusted through a monthly energy tracker.
  - This cost recovery mechanism is specifically designed to provide NorthWestern with adequate revenues to pay all its default energy suppliers, not just PPL.

- PPL provides electricity to NorthWestern under the terms of two long-term transactions.
  - Taken together, these contracts provide NorthWestern with 450 MW of electricity at very competitive prices.
    - Blended cost for the power PPL provides to NorthWestern is $31.98 per megawatt-hour, significantly lower than the overall per megawatt-hour price that NorthWestern now charges its customers for default supply
    - These transactions contain fixed pricing and are effective through June 30, 2007, providing long-term price stability
    - Reliability is enhanced by the fact that the electricity is delivered at multiple points across the NorthWestern transmission system

- During the default supply procurement process in 2001, The Montana Power Company (NorthWestern's predecessor) obtained bids from 14 companies. Ultimately, the Montana PSC endorsed the prudency of only two bids – one from PPL and another from Duke Energy.

- The transactions that PPL and Montana Power executed were entered into under a standard industry agreement with terms and conditions designed to protect either party in the event of non-performance or financial difficulty.

- In addition to the electricity supplied under long-term transactions, PPL regularly sells to NorthWestern, on a spot basis, electricity that presumably is used by NorthWestern to serve its Montana customers.

II. PPL's role in meeting additional Montana electricity needs:

➢ PPL's marketing affiliate also supplies electricity to numerous large industrial and commercial customers under long-term contracts throughout Montana.

  - As an example, our marketing affiliate recently signed a contract with Montana Resources Inc. to provide 43 MW for MRI's Butte mining operations.

III. Possible NorthWestern bankruptcy:

➢ There has been a great deal of talk in the state about what might happen if NorthWestern were to declare bankruptcy, especially what such an event would mean to the long-term power purchase transaction PPL and NorthWestern.

➢ First, I should stress that, to our knowledge, NorthWestern has not filed for bankruptcy and, therefore, our discussion about this topic is, to a large degree, a hypothetical one.

➢ While the terms of the industry-standard contract between PPL and NorthWestern give PPL the right to cancel the contract in the event of bankruptcy, we would not necessarily invoke that provision.

- In fact, at this time, and assuming that NorthWestern stays current with its payments, we see no reason to seek termination of the contract in the event of a NorthWestern bankruptcy filing.

- In the event of bankruptcy, we would attempt to work with NorthWestern, as we have done since its financial downgrade in late 2002, on terms that would allow these transactions to stay in place.

  - For instance, following the NorthWestern downgrade in late 2002, PPL had the right (under the contract terms) to insist on adequate collateral (a letter of credit or cash deposit, for example) to ensure continued payment by NorthWestern for the energy that PPL delivers. Instead, we reached agreement under which NorthWestern pays its bill on a weekly basis instead of monthly, as had previously been the case.

  - The weekly payment arrangement remains in effect and, as of this week, NorthWestern is current with its payments to PPL. PPL understands, of course, that NorthWestern could chose to terminate these transactions, with the bankruptcy court's approval, during a bankruptcy proceeding.

- We believe this would be unwise, however, because NorthWestern then would be subject to purchasing energy at current market prices. And, the market prices today are significantly higher than the blended contract price.

- Regardless of whether the long-term energy transactions between PPL and NorthWestern remain in effect during or after a NorthWestern bankruptcy, PPL does not believe that the residents of Montana should lose electricity supply.

  - If the long-term transactions did not continue in effect, PPL would continue to operate its power plants and market its electricity to other companies in the region. NorthWestern then could obtain its default supply needs from the market.

- Of course, under current market conditions, this electricity is likely to come at a higher price than that now in place under the long-term transactions with the contract.

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